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Classification

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Rec'd: FEBRUARY 27, 1959

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FROM: BERLIN

TO: Secretary of State

NO: ⁷³⁴~~739~~ FEBRUARY 27, 9 AM

SENT BONN 659, REPEATED INFORMATION DEPARTMENT 739.

REFERENCE: (A) BONN'S 608 RPTD INFO DEPT 1829; (B) BONN'S 614 RPTD INFO DEPT 1844.

MISSION CANNOT DEMONSTRATE STATISTICALLY AS REQUESTED REFTL (A) THAT ECONOMIC SITUATION WEST BERLIN ACTUALLY DETERIORATING. DATA REQUESTED FOR MOST PART AVAILABLE ONLY FOR DEC WHEREAS PROBLEM IS WHAT INVESTMENT DECISIONS ARE BEING MADE NOW. ENTIRELY CONCEIVABLE AS SENAT REP STRESSED AT BCIC MEETING THAT WHILE CURRENT LEVELS BUSINESS ACTIVITY SATISFACTORY INVESTMENT DECISIONS NOW BEING MADE IMPLY LOWER LEVEL OF ACTIVITY 3 OR 4 MONTHS HENCE.

INDEX INDUSTRIAL PRODUCTION IN JANUARY 114 COMPARED WITH 108 IN JANUARY 1958. UNEMPLOYMENT AT END OF JAN 95,000 COMPARED WITH 101,000 JAN 1958. ACTIVITY IN CONSTRUCTION FIELD HIGHER THAN SEASONAL DUE LARGELY TO MILD WINTER. PROSPECTS FOR SPRING CONSTRUCTION ACTIVITY GOOD BASED ON INCREASE IN LICENSES ISSUED FOR MULTI-FAMILY RESIDENTIAL BUILDINGS AND KNOWN PLANS OF PUBLIC AUTHORITIES TO ACCELERATE WORK ON VARIOUS PUBLIC PROJECTS.

OUTLOOK IN INVESTMENT GOODS INDUSTRIES MIXED. ELECTRICAL EQUIPMENT INDUSTRY ENJOYING MILD BOOM, HEAVY MACHINERY HOLDING ITS OWN BUT WITH MANY FIRMS STILL NEGOTIATING FOR LARGE ORDERS AND SOME INDIVIDUAL LINES SHOWING DECLINES IN NEW ORDERS RECEIVED. EMPLOYMENT AND ACTIVITY CURRENTLY BEING MAINTAINED BY BACKLOG OF ORDERS BUT MORE AND MORE CONCERN BEING EXPRESSED ABOUT ORDERS SITUATION IN COMING MONTHS.

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-2-, ⁷³⁴~~739~~ FEBRUARY 27, 9 AM, FROM BERLIN - CORRECTED PAGE 2

SHORT TERM BANK CREDIT OUTSTANDING FEB. 14 ONLY DM 946 MILLION COMPARED WITH DM 989 MILLION DEC. 31 AND DM 1 BILLION OCT. 31, AND NOW AT ABOUT SAME LEVEL AS THIS TIME LAST YEAR; RECENT FIGURES ON MEDIUM AND LONG TERM CREDIT OUTSTANDING NOT AVAILABLE. ANALYSIS LAST 5 BCIC MEETINGS SHOWS NO DISCERNIBLE TREND IN LOAN APPLICATIONS BY SIZE OF BORROWER OR AMOUNT OF LOAN EXCEPT THAT APPLICATIONS FROM SMALL BORROWERS INCREASED FROM 11 AND 9 AT THE 57TH AND 58TH MEETINGS TO 24 AT THE 59TH MEETING.

MISSION BELIEVES VIEWS EXPRESSED BY THIESSEN TO EMBASSY (REFTEL B) ARE ON OPTIMISTIC SIDE. HE DID NOT PUT THEM FORWARD IN THIS FORM AT BCIC MEETING. WHILE LONG-RANGE OBJECTIVE IS TO PROMOTE ECONOMIC DEVELOPMENT AND INDUSTRIAL CAPACITY BOTH SENAT AND FEDREP OFFICIALS EMPHASIZED VIEW MORE PRESSING IMMEDIATE OBJECTIVE SHOULD BE MAINTAIN ECONOMIC ACTIVITY IN FACE INEVITABLE CUMULATIVE DEPRESSING EFFECTS OF SOV PRESSURES.

DISCUSSIONS AND ATTITUDES : APPARENT AMONG VARIOUS SPOKESMEN IN BCIC CLEARLY REFLECT VIEW OF MOST THAT DOWNTURN IN BUSINESS SENTIMENT TO INVEST IN BERLIN WOULD OCCUR IF PUBLIC FUNDS NOT MADE AVAILABLE ON MORE LIBERAL TERMS. ALL SEEMED TO BELIEVE THAT MORE LIBERAL LOAN POLICY WOULD HAVE FAVORABLE PSYCHOLOGICAL EFFECT ON INVESTMENT CLIMATE BY FINANCING PROJECTS THAT MIGHT OTHERWISE BE DEFERRED, AND THUS ENCOURAGING BANKS AND OTHER INVESTORS. IN BCIC DISCUSSIONS IT HAS NEVER BEEN ARGUED THAT AEG, OSRAM, IBM, SIEMENS, ETC. HAVE NO RECOURSE TO CAPITAL MARKET OR OTHER SOURCES OF FINANCING. HOWEVER IT IS NOW WIDELY FEARED THAT THESE ALTERNATIVE SOURCES WOULD NOT BE USED AND THAT INVESTMENT PLANS WOULD NOT BE CARRIED OUT UNLESS ENCOURAGED BY MORE LIBERAL POLICY ON COUNTERPART LOANS. THIS ATTITUDE ON PART OF INVESTORS HAS BEEN REPORTED TO MISSION OFFICERS BY A NUMBER OF PROMINENT PERSONS IN BUSINESS AND FINANCE.

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